KAKUZI LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

COMPANY INFORMATION

COUNTRY OF INCORPORATION	The company is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya.
DIRECTORS	Dr. T R Fowkes* Chairman Mr. G H Mclean* Managing Director Mr. S E Cowell* Dr. B M Gecaga, CBS Retired on 20 May 2005 Mr. R Kemoli Appointed on 20 May 2005 Mr. T G Lupton* Mr. N Nganga Mr. K W Tarplee* * British
SECRETARY AND OFFICE AT WHICH REGISTER OF SECURITIES IS KEPT	Mr. J L G Maonga of Livingstone Associates P O Box 30029 Nairobi 00100 GPO Telephone (020) 4441344 Facsimile (020) 4448966
REGISTERED OFFICE	Main Office Punda Milia Road, Makuyu P O Box 24 Thika 01000 Telephone (067) 64620 Facsimile (067) 64240 E-mail: mail@kakuzi.co.ke
REGISTRARS	Barclays Advisory and Registrar Services Limited Bank House Moi Avenue P O Box 30120 Nairobi 00200 Telephone (020) 210577 Facsimile (020) 241301
AUDITORS	PricewaterhouseCoopers P O Box 43963 Nairobi 00100
BANKERS	Kenya Commercial Bank Limited P O Box 30081 Nairobi 00100 Commercial Bank of Africa Limited P O Box 45136 Nairobi 00100 CFC Bank Limited P O Box 72833 Nairobi 00200
SUBSIDIARY COMPANIES	Estates Services Limited (100% owned) Siret Tea Company Limited (100% owned) Kaguru (EPZ) Limited (100% owned)

KAKUZI LIMITED

NOTICE OF MEETING

NOTICE is hereby given that the Seventy Eighth Annual General Meeting of the members of the company will be held in the Allamanda room, Serena Hotel, Nairobi on 23 May 2006 at 12.00 noon for the following purposes:-

1. To read the notice convening the meeting.

2. To table the proxies and confirm the presence of a quorum.

3. To approve the minutes of the Seventy Seventh Annual General Meeting held on 19 May 2005.

4. To receive, consider and adopt the financial statements for the year ended 31 December 2005 together with the reports thereon of the Chairman, Directors and of the Independent Auditors.

5. To declare a nil dividend in respect of the year ended 31 December 2005.

6. To elect Directors: -

   (a) In accordance with Article 86 of the Company's Articles of Association, Mr. T G Lupton and Dr. T R Fowkes retire by rotation and, being eligible, offer themselves for re-election.

   (b) In accordance with Article 91 of the Company's Articles of Association, Mr. R Kemoli retires at this meeting and, being eligible, offers himself for re-election.

7. To approve the Directors' remuneration for the financial year ended 31 December 2005.

8. To note that Messrs PricewaterhouseCoopers continue in office as Auditors by virtue of section 159 (2) of the Companies Act (Cap) 486 and to authorise the Directors to fix their remuneration for the ensuing financial year.

BY ORDER OF THE BOARD

Mr. J LG Maonga of
Livingstone Associates
Company Secretary

7 March 2006

Note:

A member entitled to attend and vote at this meeting is entitled to appoint a proxy to attend and vote on his/her behalf and such proxy need not be a member of the Company.

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

As in our 2004 Annual Report, the attached Financial Statements have been prepared in accordance with International Financial Reporting Standards, in particular International Accounting Standard 41 – Agriculture. Under this Standard, certain biological assets are valued in relation to their expected future earnings. The change in the value of biological assets from one year to the next is taken to the Profit and Loss Account which has resulted in a charge of Sh 50 million against our 2005 profit. We are now taking a more conservative view as to the probable future profitability of our citrus plantings, but the most important factor influencing the valuation of our biological assets is the exchange rate of the Kenya shilling which strengthened dramatically over the period 31 December 2004 to 31 December 2005 – as the shilling strengthens, so the expected earnings of our tea, avocado and pineapple denominated in dollars, euros and pounds sterling respectively translate into fewer Kenya shillings and hence lower valuations for our corresponding plantings.

The previous year's Balance Sheet as at 31 December 2004 has been restated, and our property, plant and equipment is now shown at historical values with the revaluation surpluses being reversed. Non-distributable reserves, revenue reserves and deferred income tax have also been restated accordingly. As a result the reported net assets are reduced by Sh 111 million, but this has no impact on our Profit and Loss Statement.

In 2005 the principal factor affecting our operating profit has been the collapse in the tea price. Finance costs increased due to increased borrowings and higher interest rates. Overall the Kakuzi loss before tax for 2005 amounted to Sh 112 million compared with a pre-tax profit of Sh 93 million in 2004. The loss after tax attributable to the members of Kakuzi Limited for 2005 was Sh 74 million or Sh 3.76 per stock unit.

TEA

PRODUCTION IN 2005 – 2.9 MILLION KG OF MADE TEA FROM 983 MATURE HA
(PRODUCTION IN 2004 – 3.2 MILLION KG OF MADE TEA FROM 974 MATURE HA)

Weather conditions in the latter half of the year were not as conducive to tea production as had been the case in 2004. Throughout the year selling prices in US dollar terms were much reduced due to an oversupplied world market. We introduced various cost-cutting measures and severely restricted capital investment in our tea operations.

AVOCADO

PRODUCTION IN 2005 – 2,567 TONNES OF WHICH 2,050 TONNES EXPORTED
(PRODUCTION 2004 – 2,985 TONNES OF WHICH 2,283 TONNES EXPORTED)

During 2005 we planted an additional 50 ha of avocado, bringing our total avocado plantings to 278 ha. Once again avocados generated a very significant contribution to company profits in 2005. European selling prices denominated in euros improved in relation to 2004 but farm gate income in Kenya shilling terms suffered somewhat due to the strength of the shilling. We have commenced construction of a new avocado packing facility which will be operational for the 2006 avocado season. All our avocados will henceforth be packed on-farm in Makuyu rather than through contract packers in Nairobi.

OTHER HORTICULTURE

67 HA DEVELOPED TO OTHER HORTICULTURAL CROPS PLUS 850 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2005 (61 HA DEVELOPED TO OTHER HORTICULTURAL CROPS PLUS 1,163 HA OF JOINT VENTURE PINEAPPLE AT 31 DECEMBER 2004)

Del Monte Kenya Limited gave notice under our existing jointly controlled canned pineapple project. Negotiations continued throughout 2005 concerning a new joint venture agreement to cover both our existing pineapple land plus the planting of additional pineapple on some of our ex-coffee areas. However these negotiations have been unsuccessful thus far.

Under the existing agreement the final field will be harvested in May 2008. Earnings from the pineapple joint venture in 2005 were in line with the corresponding figures for 2004.

We uprooted 7 ha of citrus following the 2005 harvest due to greening disease. We increased the area planted to fresh pineapple, and earnings from this crop increased yet again.

LIVESTOCK

CATTLE SALES IN 2005 – 827 HEAD (2004 - 877 HEAD)
CATTLE HERD AT 31 DECEMBER 2005 – 4,205 HEAD (2004 – 4,091 HEAD)

Slaughterhouse renovations have improved the profitability of our livestock operation, and we have now completed the construction of cold room facilities to enable us to supply cold dressed carcasses direct to the market as opposed to our traditional live sales.

FORESTRY

Sales of treated poles through our Makuyu wood treatment plant continue to increase. Sales of pine from our Nandi Hills estates again made a significant contribution to company earnings, although not to the same extent as in 2004.

GENERAL

Operating costs were very tightly controlled during 2005, as was capital investment. The major capital expenditures during the year were the new avocado plantings and the avocado packing facility. Financing costs increased somewhat due to higher interest rates and the additional borrowings necessitated by these avocado investments. We continue to hold a proportion of our borrowings in US dollars to take advantage of the lower interest rates on dollars which were available throughout 2005.

DIVIDENDS

In view of the loss we are reporting for 2005 and the need to reduce the company's borrowings, the Board recommends that no dividend should be paid for 2005.

PROSPECTS

A strong Kenya shilling will continue to have a detrimental impact upon the profitability of our tea, avocado and joint venture pineapple operations. Tea production thus far in 2006 has been severely hit by drought following the failure of the short rains in late 2005. Tea prices have risen dramatically on the Mombasa auction as a result, although not enough to offset the reduced yields. In view of the current volatility in tea yields and prices, it is difficult to make any meaningful forecast for tea profitability in 2006. We shall plant a further 50 ha of avocado during 2006 and we shall commence operation of our new avocado packing facility. Avocado production in 2006 is expected to increase significantly as recent plantings come to maturity. We are currently growing plants for the first stage of a Macadamia development with planting planned to start in late 2006. We continue to consider crops for other areas which were previously under coffee at Makuyu.

DR T R FOWKES
CHAIRMAN
7 MARCH 2006

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2005

The directors submit their report together with the audited financial statements for the year ended 31 December 2005, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The principal activities of the company comprise: -

- The cultivation, manufacture and marketing of tea
- Growing and marketing of avocados
- Livestock farming
- Jointly controlled operations dealing with the growing of pineapples
- Growing of other horticultural crops
- Forestry development

RESULTS AND DIVIDEND

The net loss for the year of Shs 73,767,000 has been deducted from retained earnings. The directors do not recommend the payment of a dividend for the 2005 year

ANNUAL GENERAL MEETING

The Seventy Eighth Annual General Meeting of the company will be held in the Allamanda room, Serena Hotel, Nairobi on Tuesday, 23 May 2006 at 12.00 noon.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit risk, foreign currency exchange rates and interest rates. The company's overall risk management programme seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by management under policies approved by the board of directors. The board provides principles for overall risk management, as well as policies covering specific areas such as foreign exchange risk, interest rate risk and credit risk.

The company has policies in place to ensure that sales are made to customers with an appropriate credit history.

DIRECTORS

The directors who held office during the year and to the date of this report are set out on page 1.

REPORT OF THE DIRECTORS (Continued)
FOR THE YEAR ENDED 31 DECEMBER 2005

The directors' interests in the share capital of the company are listed below: -

	Number of stock units held at 31 December 2005		Number of stock units held at 31 December 2004	
	Beneficial	Non-Beneficial	Beneficial	Non-Beneficial
Dr. T R Fowkes	-	300	-	300
Mr. R Kemoli	-	-	-	-
Mr. N Nganga	1,000	-	1,000	-
Mr. T G Lupton	-	300	-	300
Mr. K W Tarplee	-	75	-	75
Mr. G H Mclean	100	-	-	-
Mr. S E Cowell	100	-	-	-

In accordance with Article 86 of the Company's Articles of Association, Mr. T G Lupton and Dr. T R Fowkes retire by rotation and, being eligible, offer themselves for re-election.

In accordance with Article 91 of the Company's Articles of Association, Mr. R Kemoli retires at this meeting and, being eligible, offers himself for re-election.

None of the directors or their families had a material interest in any significant contract with the company or any of its subsidiaries during or at the end of the financial year.

AUDITORS

The Group's Auditors, PricewaterhouseCoopers, will continue in office in accordance with Section 159(2) of the Companies Act (Cap) 486.

BY THE ORDER OF THE BOARD

Mr. G H Mclean
Managing Director

7 March 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2005

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the group and of the company as at the end of the financial year and of the group's profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of the company and of the group's profit or loss. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the company and its subsidiaries will not remain a going concern for at least twelve months from the date of this statement.

Dr. T R Fowkes
Director

7 March 2006

Mr. G H Mclean
Director

7 March 2006

CORPORATE GOVERNANCE
FOR THE YEAR ENDED 31 DECEMBER 2005

The directors endorse the spirit of the Guidelines on Corporate Governance Practices by Public Listed Companies in Kenya issued by the Capital Markets Authority.

The board of directors consists of both executive and non-executive directors, including two independent and three non-executive directors. The board is responsible for setting strategy, approving budgets, capital expenditure, investment and divestments. The board meets at least four times a year and sufficient information is circulated in advance of board meetings to enable the directors to discharge their duties.

The board has established the following committees: -

1. The audit committee, consisting of two independent and non-executive directors, plus Dr. T R Fowkes as chairman.

2. The nominating committee, constituted as a committee of the entire board, chaired by Dr. T R Fowkes.

Every director, with the exception of the managing director, retires by rotation in accordance with the company's Articles of Association.

In reviewing corporate governance, the directors consider it appropriate to take into account the company's status as a subsidiary of Camellia Plc and the size of the company's operations. On the 17th November 2005, Linton Park Plc became a wholly owned subsidiary of Camellia Plc.

The company is compliant with the Guidelines on Corporate Governance with the exception of the following non-prescriptive guidelines: -

Rule 3.1.3 (i) The nominating committee is constituted as a committee of the entire board, and new board appointments are considered by the full board.

Rule 3.1.4 (i) The remuneration of directors is considered by the nominating committee which comprises the whole board.

AUDIT COMMITTEE

During the year, the audit committee met twice. The committee approved the annual interim internal audit plan which has been monitored by monthly internal audit reports. The committee is satisfied with the group's system of internal financial control. The committee also meets with the external auditors at the commencement and conclusion of the audit.

COMMUNICATION WITH SHAREHOLDERS

The company is committed to equitable treatment of its shareholders including the minority and foreign shareholders and ensures that all shareholders receive full and timely information about its performance through the distribution of the annual report and financial statements and half yearly interim financial report and through compliance with the relevant continuing obligations under the Capital Markets Authority Act. The company's results are advertised in the press and released to the stock exchange within the prescribed period at each half-year and year end.

Dr. T R Fowkes Director	**Mr. G H Mclean** Director
7 March 2006	7 March 2006

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KAKUZI LIMITED

We have audited the consolidated financial statements of Kakuzi Limited (the company) and its subsidiaries (together, the group) for the year ended 31 December 2005 set out on pages 11 to 39 and the accompanying balance sheet of the company standing alone as at 31 December 2005 (the financial statements).

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as described on page 8. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and we believe our audit provides a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the group and of the company at 31 December 2005 and of the loss and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act. The balance sheet of the company is in agreement with its books of account.

PricewaterhouseCoopers
Certified Public Accountants
Nairobi

7 March 2006

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2005 Shs'000	2004 Restated Shs'000
Sales	2	1,110,348	1,424,503
Continuing operations		1,110,348	1,393,129
Discontinuing operations		-	31,374
(Losses)/ gains arising from changes in fair value less estimated point-of-sale costs of biological assets	14	(50,443)	93,114
		1,059,905	1,517,617
Cost of production		(882,717)	(1,084,037)
Gross profit	2	177,188	433,580
Other operating income		16,758	23,372
Distribution costs		(121,094)	(153,761)
Administrative expenses		(120,169)	(170,786)
Impairment charge on property, plant and equipment	13	(15,230)	-
Operating (loss)/ profit	3	(62,547)	132,405
Continuing operations		(62,547)	180,622
Discontinuing operations		-	(48,217)
Finance costs	5	(49,535)	(39,409)
(Loss)/ profit before income tax		(112,082)	92,996
Continuing operations		(112,082)	141,213
Discontinuing operations		-	(48,217)
Income tax credit/ (expense)	6	38,315	(9,263)
(Loss)/ profit attributable to the members of Kakuzi Limited		(73,767)	83,733
		Shs	**Shs**
Basic and diluted (loss)/ earnings per stock unit	7	(3.76)	4.27
		Shs '000	**Shs '000**
Dividends: -			
Proposed final dividend for the year	8	-	19,600

CONSOLIDATED AND COMPANY BALANCE SHEET

	Notes	Group 2005 Shs'000	Group 2004 Restated Shs'000	Company 2005 Shs'000	Company 2004 Restated Shs'000
CAPITAL EMPLOYED					
Share capital	9	98,000	98,000	98,000	98,000
Fair value reserve		-	7,127	-	7,127
Retained earnings		812,218	885,985	806,568	880,335
Proposed dividends		-	19,600	-	19,600
Stockholders' funds		910,218	1,010,712	904,568	1,005,062
Non-current liabilities					
Borrowings	10	175,000	250,000	175,000	250,000
Deferred income tax	11	323,544	361,899	323,544	361,899
Post-employment benefit obligations	12	41,492	39,753	41,492	39,753
		540,036	651,652	540,036	651,652
		1,450,254	1,662,364	1,444,604	1,656,714
REPRESENTED BY					
Non-current assets					
Property, plant and equipment	13	619,534	595,861	619,534	595,861
Biological assets	14	1,106,037	1,165,303	1,106,037	1,165,303
Prepaid operating lease rentals	15	8,155	8,165	8,155	8,165
Investments in subsidiaries	16	-	-	10,786	10,786
Other financial assets	17	-	10,371	-	10,370
Non-current receivables	19	13,871	16,885	13,871	16,885
		1,747,597	1,796,585	1,758,383	1,807,370
Current assets					
Inventories	18	81,265	79,565	81,265	79,565
Receivables and prepayments	19	176,584	115,712	176,584	115,712
Current income tax		33,717	33,680	33,663	33,627
Cash and cash equivalents	22	24,343	8,651	24,343	8,651
		315,909	237,608	315,855	237,555
Current liabilities					
Payables and accrued expenses	20	176,737	145,973	193,119	162,355
Borrowings	10	430,689	218,381	430,689	218,381
Post-employment benefit obligations	12	5,826	7,475	5,826	7,475
		613,252	371,829	629,634	388,211
Net current liabilities		(297,343)	(134,221)	(313,779)	(150,656)
		1,450,254	1,662,364	1,444,604	1,656,714

The financial statements on pages 11 to 39 were approved for issue by the board of directors on 7 March 2006 and signed on its behalf by: -

Mr. S E Cowell
Director

Mr. G H Mclean
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Revaluation surplus Shs'000	Fair value reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2004							
At start of year							
- as previously reported		98,000	126,957	7,805	774,533	-	1,007,295
- excess depreciation transfer for previous years		-	(28,088)	-	28,088	-	-
- reversal of revaluation surplus		-	(111,186)	-	-	-	(111,186)
- deferred income tax on reversal		-	12,317	-	-	-	12,317
- overstatement of deferred income tax		-	-	-	19,231	-	19,231
- as restated		98,000	-	7,805	821,852	-	927,657
Fair value loss		-	-	(678)	-	-	(678)
Profit for the year		-	-	-	83,733	-	83,733
Dividends: -							
Proposed final dividend for 2004	8	-	-	-	(19,600)	19,600	-
At end of year		98,000	-	7,127	885,985	19,600	1,010,712
Year ended 31 December 2005							
At start of year							
- as previously reported		98,000	126,273	7,127	839,350	19,600	1,090,350
- excess depreciation transfer for previous years		-	(27,404)	-	27,404	-	-
- reversal of revaluation surplus		-	(111,186)	-	-	-	(111,186)
- deferred income tax on reversal		-	12,317	-	-	-	12,317
- overstatement of deferred income tax		-	-	-	19,231	-	19,231
- as restated		98,000	-	7,127	885,985	19,600	1,010,712
Disposal of investments		-	-	(7,127)	-	-	(7,127)
Loss for the year		-	-	-	(73,767)	-	(73,767)
Dividends: -							
Final dividend for 2004 paid	8	-	-	-	-	(19,600)	(19,600)
At end of year		98,000	-	-	812,218	-	910,218

COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Revaluation surplus Shs'000	Fair value reserve Shs'000	Retained earnings Shs'000	Proposed dividends Shs'000	Total Shs'000
Year ended 31 December 2004							
At start of year							
- as previously reported		98,000	130,203	7,805	765,637	-	1,001,645
- excess depreciation transfer for previous years		-	(31,334)	-	31,334	-	-
- reversal of revaluation surplus		-	(111,186)	-	-	-	(111,186)
- deferred income tax on reversal		-	12,317	-	-	-	12,317
- overstatement of deferred income tax		-	-	-	19,231	-	19,231
- as restated		98,000	-	7,805	816,202	-	922,007
Fair value loss		-	-	(678)	-	-	(678)
Profit for the year		-	-	-	83,733	-	83,733
Dividends: -							
Proposed final dividend for 2004	8	-	-	-	(19,600)	19,600	-
At end of year		98,000	-	7,127	880,335	19,600	1,005,062
Year ended 31 December 2005							
At start of year							
- as previously reported		98,000	129,519	7,127	830,454	19,600	1,084,700
- excess depreciation transfer for previous years		-	(30,650)	-	30,650	-	-
- reversal of revaluation surplus		-	(111,186)	-	-	-	(111,186)
- deferred income tax on reversal		-	12,317	-	-	-	12,317
- overstatement of deferred income tax		-	-	-	19,231	-	19,231
- as restated		98,000	-	7,127	880,335	19,600	1,005,062
Disposal of investments		-	-	(7,127)	-	-	(7,127)
Loss for the year		-	-	-	(73,767)	-	(73,767)
Dividends: -							
Final dividend for 2004 paid	8	-	-	-	-	(19,600)	(19,600)
At end of year		98,000	-	-	806,568	-	904,568

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2005 Shs'000	2004 Shs'000
Operating activities			
Cash generated from operations	21	35,722	111,232
Interest received		102	27
Interest paid		(44,588)	(33,857)
Income tax paid		(77)	(66)
Net cash (used in)/ from operating activities		(8,841)	77,336
Investing activities			
Purchase of property, plant and equipment	13	(86,968)	(16,941)
Purchase of biological assets	14	(30,727)	(5,744)
Purchase of investments		-	(678)
Proceeds from disposal of property, plant and equipment		6,428	30,292
Dividend received from investment		801	782
Proceeds from sale of investments		14,018	-
Net cash (used in)/ from investing activities		(96,448)	7,711
Financing activities			
Payments on long-term borrowings		(20,740)	(24,045)
Dividend paid		(19,600)	-
Net cash used in financing activities		(40,340)	(24,045)
(Decrease)/ increase in cash and cash equivalents		(145,629)	61,002
Movement in cash and cash equivalents			
At start of year		(201,490)	(256,940)
Exchange gains/ (losses)		3,273	(5,552)
(Decrease)/ increase		(145,629)	61,002
At end of year	22	(343,846)	(201,490)

STATEMENT OF GROUP ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The financial statements are presented in the functional currency, Kenya Shillings (Shs), rounded to the nearest thousand, and prepared under the historical cost convention as modified by the carrying of biological assets and agricultural produce at fair values less estimated point-of-sale costs.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements are disclosed in Note 1.

Adoption of new and revised standards

In 2005 several new and revised standards became effective for the first time and have been adopted by the group where relevant to its operations. The adoption of these new and revised standards had no material effect on the group's accounting policies or disclosures, except as follows: -

IAS 16 (revised 2003) has required the disclosure of comparative figures for movements in property, plant and equipment;

IAS 24 (revised 2003) has affected the identification of related parties and some other related party disclosures.

b) Consolidation

Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date the control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

c) Segmental reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

STATEMENT OF GROUP ACCOUNTING POLICIES (Continued)

d) Revenue recognition

Sales other than tea sold by auction are recognised upon delivery of products to the customer, the customer has accepted the products and collectability of the related receivables is reasonably assured. Sales by auction are recognised upon the fall of the hammer for confirmed bids.

The final annual sales amount for the pineapple joint venture with Del Monte Kenya Limited is determined on a formula basis which depends on the average Del Monte Kenya Limited pineapple selling price achieved on a world wide basis. This figure is not known by the time the financial statements are published. The company's share of the revenue in respect of the pineapple joint venture has been determined prudently on the basis of best information available.

Revenue represents the fair value of the consideration receivable for sales of goods and is stated net of Value-Added Tax (VAT), rebates and discounts.

Interest income is recognised on a time proportion basis using the effective interest method. Dividends are recognised as income in the period in which the right to receive payment is established.

e) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into the functional currency, Kenya Shillings, using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

f) Property, plant and equipment

All categories of property, plant and equipment were initially recorded at cost. In prior years, freehold land, buildings dams and improvements were subsequently shown at revalued amounts, based on periodic valuations by the directors. All other property, plant and equipment was stated at historical cost less depreciation.

During the year, the group changed its accounting policy. All property, plant and equipment are now stated at historical cost less depreciation. The resulting prior year adjustments are disclosed on the statement of changes in equity, Note 11 and Note 13 of the financial statements.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the financial period in which they are incurred.

Freehold land and capital work-in-progress is not depreciated. Depreciation on other assets is calculated using the straight line method to write down their cost to their residual values over their estimated useful life as follows: -

Buildings, dams and improvements	4 - 50 years
Plant, machinery and tools	10 - 13 years
Motor vehicles, tractors, trailers and implements	4 - 10 years
Furniture, fittings and equipment	3 - 8 years

STATEMENT OF GROUP ACCOUNTING POLICIES (Continued)

f) Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets' carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets' fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

g) Biological assets

Biological assets are measured on initial recognition and at each balance sheet date at fair value less estimated point-of-sale costs. Any gains or losses arising on initial recognition of biological assets and from subsequent changes in fair value less estimated point-of-sale costs are recognised in the profit and loss account in the year in which they arise.

Fair value of livestock is determined based on market prices of livestock of similar age and sex. Where meaningful market-determined prices do not exist to assess the fair value of the group's other biological assets, the fair value is determined based on the net present value of expected future cash flows, discounted at appropriate pre-tax rates. The discount rates used reflect the cost of capital, an assessment of country risk, and the risks associated with individual crops. The fair value of permanent plantings is determined based on the net present values of expected future cash flows, discounted at current market-determined pre-tax rates.

All costs of breeding, planting, upkeep and maintenance of biological assets are recognised in the profit and loss account, under cost of production in the period in which they are incurred.

h) Accounting for leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

i) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of made tea comprises the fair value less estimated point-of-sale costs of green leaf at the point of harvest, direct labour, and other direct costs and related production overheads but excludes interest expense. For other inventories, cost is determined by the weighted average method. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses.

STATEMENT OF GROUP ACCOUNTING POLICIES (Continued)

j) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. A provision for impairment of receivables is established when there is objective evidence that the company will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the present value of expected cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

k) Employee benefits

(i) Post-employment benefits

For non-management employees, the company has an unfunded obligation to pay terminal gratuities under standard terms of service, up to twenty one days pay for each completed year of service. The liability is determined on the basis of years of service completed and a provision made. Any increases or decreases in the provision are taken to the profit and loss account.

The company operates a defined contribution retirement benefits scheme for management employees. A defined contribution plan is a pension plan under which the company pays fixed contributions into a separate entity. The company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the company and employees. The company and all its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The company's contributions to both these defined contribution schemes are charged to the profit and loss account in the year in which they fall due.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

l) Income tax

Income tax credit or expense is the aggregate of the credit or charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or deferred income tax liability is settled.

STATEMENT OF GROUP ACCOUNTING POLICIES (Continued)

l) Income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method; any differences between proceeds (net of transaction cost) and the redemption value is recognised in the profit and loss account over the period of the borrowings.

n) Comparatives

Where necessary, comparatives have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS

1. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including assumptions of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Biological assets

Critical assumptions are made by the directors in determining the fair values of biological assets. The key assumptions are set out in Note 14.

(ii) Property, plant and equipment

Critical assumptions are made by the directors in determining depreciation rates for property, plant and equipment. The rates are set out in accounting policy (f).

(iii) Post retirement benefit obligation

Critical assumptions are made in determining the present value of the obligation.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the group's accounting policies, management has made judgements in determining: -

- the company's revenue in respect of the pineapple joint venture
- whether assets are impaired

(c) Critical judgement on going concern

The group's current liabilities exceeded its current assets by Shs 297,343,000 at the balance sheet date. The financial statements have been prepared on a going concern basis, which assumes continued availability of the group's banking facilities to meet its obligations as they fall due. The facilities expire later in the year and the relevant banks have confirmed that they are not aware of any factors that would affect the renewal of the facilities. In the circumstances, the directors are of the opinion that the going concern basis of preparing the financial statements is appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. EMPLOYEE BENEFITS

The following items are included within employee benefits: -

	Note	2005 Shs'000	2004 Shs'000
Salaries and wages		236,670	260,694
Post employment benefit costs: -			
- Defined contribution scheme		1,828	1,820
- National Social Security Fund		7,295	6,762
- Gratuity provision	12	10,378	14,678
		256,171	283,954

5. FINANCE COSTS

	2005 Shs'000	2004 Shs'000
Interest expense: -		
- Bank borrowings - long term	(29,813)	(20,558)
- Bank borrowings - short term	(22,995)	(12,635)
- Related party borrowings - short term	-	(664)
	(52,808)	(33,857)
Net foreign exchange gain/ (loss)	3,273	(5,552)
Finance costs	(49,535)	(39,409)

6. INCOME TAX

	Note	2005 Shs'000	2004 Shs'000
Current income tax		(40)	(39)
Deferred income tax credit/ (expense)	11	38,355	(9,224)
Income tax credit/ (expense)		38,315	(9,263)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INCOME TAX (Continued)

The tax on the group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows: -

	2005 Shs'000	2004 Shs'000
(Loss)/ profit before income tax	(112,082)	92,996
Tax credit/ (charge) calculated at the statutory income tax rate of 30% (2004: 30%)	33,625	(27,899)
Tax effect of: -		
- Income not subject to tax	8,821	2,872
- Expenses not deductible for tax purposes	(1,662)	(12,595)
- (Under)/ over provision of deferred tax in prior years	(2,469)	28,359
Income tax credit/ (expense)	38,315	(9,263)

7. BASIC AND DILUTED (LOSS)/ EARNINGS PER STOCK UNIT

Basic and diluted (loss)/ earnings per stock unit is calculated on the (loss)/ profit attributable to the members of Kakuzi Limited and on the 19,599,999 stock units in issue at 31 December 2005 and 31 December 2004.

The company had no potentially dilutive stock units outstanding at 31 December 2005 and 31 December 2004.

	2005	2004
(Loss)/ profit for the year (Shs '000)	(73,767)	83,733
Number of shares (thousands)	19,600	19,600
Basic and diluted (loss)/ earnings per stock unit (Shs)	(3.76)	4.27

8. PROPOSED DIVIDENDS

At the Annual General Meeting to be held on 23 May 2006, no final dividend in respect of the year ended 31 December 2005 is to be proposed. During the year no interim dividend was paid. The total dividend for the year is therefore Nil (2004: Shs 1/= per stock unit amounting to Shs 19,600,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

9. SHARE CAPITAL

	2005 Shs'000	2004 Shs'000
Authorised: -		
20,000,000 shares at Shs 5 each	100,000	100,000
Issued and converted into stock: -		
19,599,999 units of Shs 5 each fully paid	98,000	98,000

In accordance with the Articles of Association all fully paid-up shares of the company are converted into stock units at the time of issue.

The company's shares are listed on the Nairobi Stock Exchange.

10. BORROWINGS – GROUP AND COMPANY

The borrowings are made up as follows: -

	Note	2005 Shs'000	2004 Shs'000
Non-current portion: -			
- Bank borrowings - long term		175,000	250,000
Current portion:-			
- Bank borrowings - long term		62,500	8,240
- Bank borrowings - short term	22	368,189	210,141
		430,689	218,381
Total borrowings		605,689	468,381
Maturity of non-current borrowings: -			
- Between 1 and 2 years		50,000	-
- Between 2 and 5 years		125,000	-
- Over 5 years		-	250,000
		175,000	250,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10. BORROWINGS – GROUP AND COMPANY (Continued)

Weighted average effective interest rates at year end were: -

	2005	2004
	%	%
(i) Short term borrowings: -		
- In Kenya shillings	9.5	6.3
- In US dollars	4.0	2.9
(ii) Long term borrowings: -		
- In Kenya shillings	12.0	7.7
- In US dollars	7.6	6.6

The group had the following undrawn committed borrowing facilities at the end of the year: -

	2005	2004
	Shs'000	Shs'000
At end of year	177,956	410,000

The facilities expiring within one year are annual facilities subject to review at various dates during the year 2006.

The bank borrowings are secured by an undertaking, at any time if and when required by the banks, to execute legal or other mortgages and charges including fixed or floating charges, or assignments in favour of the banks to the value of Shs 783,645,000. In the opinion of the directors the carrying amount of the borrowings approximate to fair value.

11. DEFERRED INCOME TAX – GROUP AND COMPANY

Deferred income tax is calculated using the enacted tax rate of 30% (2004: 30%). The movement on the deferred income tax account is as follows: -

		2005	2004
			Restated
	Note	Shs'000	Shs'000
At start of year			
- as previously reported		393,447	384,223
- prior year adjustment		(31,548)	(31,548)
- as restated		361,899	352,675
(Credit)/ charge to profit and loss account	6	(38,355)	9,224
At end of year		323,544	361,899

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11. DEFERRED INCOME TAX – GROUP AND COMPANY (Continued)

Deferred income tax assets and liabilities and deferred income tax (credit)/ charge in the profit and loss account are attributable to the following items: -

	At 1 January 2005 Shs'000	Prior year adjustment Shs'000	As restated Shs'000	(Credit)/ charge to P & L Shs'000	At 31 December 2005 Shs'000
Liabilities: -					
Property, plant and equipment					
on historical basis	164,005	(19,231)	144,774	(13,161)	131,613
on revaluation surpluses	12,317	(12,317)	-	-	-
Biological assets	324,028	-	324,028	(26,390)	297,638
	500,350	(31,548)	468,802	(39,551)	429,251
Assets: -					
Provisions	(17,631)	-	(17,631)	157	(17,474)
Tax losses	(66,868)	-	(66,868)	(7,083)	(73,951)
Capital development expenditure	(21,232)	-	(21,232)	7,059	(14,173)
Other temporary differences	(1,172)	-	(1,172)	1,063	(109)
	(106,903)	-	(106,903)	1,196	(105,707)
Net deferred income tax liability	393,447	(31,548)	361,899	(38,355)	323,544

The prior year adjustments relate to a change in accounting policy for property, plant and equipment (Shs 12,317,000) as explained in statement of group accounting policies (f) and an overstatement of deferred income tax (Shs 19,231,000) on the accelerated tax depreciation on property, plant and equipment.

12. POST – EMPLOYMENT BENEFIT OBLIGATIONS – GROUP AND COMPANY

The movement is as follows: -

	2005 Shs'000	2004 Shs'000
At start of year	47,228	38,528
Charge for the year	10,378	14,678
Less: gratuities paid	(10,288)	(5,978)
At end of year	47,318	47,228
Less: current portion	5,826	7,475
Long term portion	41,492	39,753

The group provides retirement benefits to non-management employees. They are entitled to gratuity on retirement based on the number of years of service and current salary. The projected cost of these benefits is accrued over the period of employment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY

	Freehold land, buildings, dams and improvements	Plant, machinery and tools	Motor vehicles, tractors, trailers and implements	Furniture, fittings and equipment	Capital work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Sh'000
Year ended 31 December 2004						
Cost or valuation						
At start of year						
- as previously reported	968,545	121,263	152,962	49,029	786	1,292,585
- reinstatement of impaired assets	63,496	2,587	3,150	3,432	-	72,665
- reversal of revaluation surplus	(148,115)	-	-	-	-	(148,115)
- as restated	883,926	123,850	156,112	52,461	786	1,217,135
Transfers	786	-	-	-	(786)	-
Additions	5,437	-	8,717	1,304	1,483	16,941
Disposals	(24,743)	-	(28,672)	(608)	-	(54,023)
At end of year	865,406	123,850	136,157	53,157	1,483	1,180,053
Depreciation and impairment						
At start of year						
- as previously reported	309,530	68,817	130,665	39,070	-	548,082
- reinstatement of impaired assets	63,496	2,587	3,150	3,432	-	72,665
- on reversal of revaluation surplus	(36,929)	-	-	-	-	(36,929)
- as restated	336,097	71,404	133,815	42,502	-	583,818
Charge for the year	28,520	8,699	8,581	4,368	-	50,168
Relating to disposals	(21,827)	-	(27,433)	(534)	-	(49,794)
At end of year	342,790	80,103	114,963	46,336	-	584,192
Net book amount - restated						
At end of year	522,616	43,747	21,194	6,821	1,483	595,861
At start of year	547,829	52,446	22,297	9,959	786	633,317
Depreciation and impairment at end of year comprises: -						
Depreciation	279,294	77,516	111,813	42,904	-	511,527
Impairment	63,496	2,587	3,150	3,432	-	72,665
	342,790	80,103	114,963	46,336	-	584,192

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY (Continued)

	Freehold land, buildings, dams and improvements	Plant, machinery and tools	Motor vehicles, tractors, trailers and implements	Furniture, fittings and equipment	Capital work in progress	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Sh'000
Year ended 31 December 2005						
Cost						
At start of year						
- as previously reported	950,025	121,263	133,007	49,725	1,483	1,255,503
- reinstatement of impaired assets	63,496	2,587	3,150	3,432	-	72,665
- reversal of revaluation surplus	(148,115)	-	-	-	-	(148,115)
- as restated	865,406	123,850	136,157	53,157	1,483	1,180,053
Transfers	1,056	427	-	-	(1,483)	-
Additions	1,859	277	3,802	4,604	76,426	86,968
Disposals	(4)	(111)	(13,140)	(17,032)	-	(30,287)
At end of year	868,317	124,443	126,819	40,729	76,426	1,236,734
Depreciation and impairment						
At start of year						
- as previously reported	316,223	77,516	111,813	42,904	-	548,456
- reinstatement of impaired assets	63,496	2,587	3,150	3,432	-	72,665
- on reversal of revaluation surplus	(36,929)	-	-	-	-	(36,929)
- as restated	342,790	80,103	114,963	46,336	-	584,192
Charge for the year	25,243	8,559	7,852	3,706	-	45,360
Impairment charge	15,230	-	-	-	-	15,230
Relating to disposals	(4)	(111)	(11,819)	(15,648)	-	(27,582)
At end of year	383,259	88,551	110,996	34,394	-	617,200
Net book amount						
At end of year	485,058	35,892	15,823	6,335	76,426	619,534
At start of year (restated)	522,616	43,747	21,194	6,821	1,483	595,861
Depreciation and impairment at end of year comprises: -						
Depreciation	304,537	85,964	108,484	30,962	-	529,947
Impairment	78,722	2,587	2,512	3,432	-	87,253
	383,259	88,551	110,996	34,394	-	617,200

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13. PROPERTY, PLANT AND EQUIPMENT – GROUP AND COMPANY (Continued)

Bank borrowings are secured on land, buildings and development to the value as disclosed in Note 10.

At 31 December 2005, property, plant and equipment with a cost amounting to Shs 187,753,000 (31 December 2004 – restated Shs 196,588,000) was fully depreciated. The normal annual depreciation charge would have been Shs 27,106,000 (31 December 2004 - restated Shs 28,620,000).

Property, plant and equipment are located in Thika, Maragua and Nandi districts.

14. BIOLOGICAL ASSETS – GROUP AND COMPANY

The movement is as follows: -

	Livestock Shs'000	Permanent plantings Shs'000	Total Shs'000
Year ended 31 December 2004			
At start of year	95,490	1,029,872	1,125,362
Increase due to purchases	408	5,336	5,744
Gains/ (losses) arising from changes in fair value less estimated point-of-sale costs	12,067	81,047	93,114
Decrease due to sales and harvest	(21,797)	(37,120)	(58,917)
At end of year	86,168	1,079,135	1,165,303
Year ended 31 December 2005			
At start of year	86,168	1,079,135	1,165,303
Increase due to purchases and land preparation	2,991	27,736	30,727
Gains/ (losses) arising from changes in fair value less estimated point-of-sale costs	22,060	(72,503)	(50,443)
Decrease due to sales and harvest	(25,045)	(14,505)	(39,550)
At end of year	86,174	1,019,863	1,106,037

Permanent plantings comprise tea, timber plantations, avocado, pineapple and citrus. Permanent plantings and livestock are carried at fair value less estimated point-of-sale costs. Where meaningful market-determined prices do not exist to assess the fair value of biological assets, the fair value was determined based on the net present value of expected future cash flows from those assets, discounted at appropriate pre-tax rates. The discount rates used reflect the cost of capital, an assessment of country risk, and the risks associated with individual crops. Discount rates used vary between 12.5% and 17.5% per annum. In determining the fair value of biological assets where the discounting of expected future cash flows has been used, the directors have made certain assumptions about expected life-span of the plantings, yields, selling prices and growing costs. The fair value of livestock is determined based on market prices of livestock of similar age and sex.

Included in carrying amount at 31 December 2005 of permanent plantings, is an amount of Shs 127,479,000 (2004 – Shs 202,800,000) relating to the pineapple joint venture (Note 23).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14. BIOLOGICAL ASSETS – GROUP AND COMPANY (Continued)

The areas planted to the various crop types at the end of the year were: -

	2005 Hectares	2004 Hectares
Tea	983	984
Timber plantations	1,389	1,456
Avocado	278	228
Pineapple	898	792
Citrus	19	26

Livestock numbers on hand at the end of the year were: -

	2005 Head	2004 Head
Cattle	4,205	4,091

Output of agricultural produce during the year: -

	2005 Metric tonnes	2004 Metric tonnes
Tea (greenleaf)	12,384	14,048
Avocado	2,567	2,985
Pineapple	34,273	61,854
Citrus	567	496

	2005 Cubic metres	2004 Cubic metres
Timber plantations	21.052	45,412

	2005 Shs'000	2004 Shs'000
Fair value of the agricultural output after deducting estimated point-of-sale costs	761,856	1,038,086

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15. PREPAID OPERATING LEASE RENTALS – GROUP AND COMPANY

	2005 Shs'000	2004 Shs'000
At start of year	8,165	8,174
Amortisation charge for the year	(10)	(9)
At end of year	8,155	8,165

Bank borrowings are secured on leasehold property to the value as disclosed in Note 10.

16. INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries comprise the following: -

	2005 Shs'000	2004 Shs'000
Estates Services Limited	2,625	2,625
Siret Tea Company Limited	6,491	6,491
Kaguru (EPZ) Limited	1,670	1,670
	10,786	10,786

The subsidiary companies, all of which are incorporated in Kenya, are wholly owned (100%). Estates Services Limited (125,000 ordinary shares), Siret Tea Company Limited (400,000 ordinary shares) and Kaguru (EPZ) Limited (3,500 ordinary shares) are dormant. Kaguru Limited changed its name to Kaguru (EPZ) Limited during the year.

17. OTHER FINANCIAL ASSETS

Other financial assets comprise the following: -

	2005		2004	
	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
Available-for-sale investments: -				
- Unquoted equity shares	-	-	7,820	7,819
Originated loans: -				
- Bank deposits	-	-	2,551	2,551
	-	-	10,371	10,370

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. INVENTORIES – GROUP AND COMPANY

	2005 Shs'000	2004 Shs'000
Made tea	57,261	55,307
Consumable stores	24,004	24,258
	81,265	79,565

The cost of inventories recognised as expense and included in cost of production amounted to Shs 387,732,000 The cost of inventories written-down and included in cost of production amounted to Shs 244,000

19. RECEIVABLES AND PREPAYMENTS — GROUP AND COMPANY

	Note	2005 Shs'000	2004 Shs'000
Trade receivables		129,853	80,344
Prepayments		2,536	2,292
Due from related companies	24	575	10,903
Loans to directors and key management	24	1,435	1,729
Value-Added Tax		39,029	15,254
Other receivables		17,027	22,075
Total		190,455	132,597
Less: Non-current portion		13,871	16,885
Current portion		176,584	115,712
Non-current receivables comprise of: -			
Loans to directors and key management		594	1,285
Other receivables		13,277	15,600
		13,871	16,885

All non-current receivables are due within five years from the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20. PAYABLES AND ACCRUED EXPENSES

		2005		2004	
	Note	Group Shs'000	Company Shs'000	Group Shs'000	Company Shs'000
Trade payables		105,738	105,738	35,510	35,510
Due to related company	24	14,893	31,276	32,226	48,609
Accrued expenses		32,914	32,914	53,729	53,729
Interest payable		8,220	8,220	-	-
Other payables		14,972	14,971	24,508	24,507
		176,737	193,119	145,973	162,355

21. CASH GENERATED FROM OPERATIONS

Reconciliation of (loss)/ profit before income tax to cash generated from operations: -

		Group	
	Notes	2005 Shs'000	2004 Shs'000
(Loss)/ profit before income tax		(112,082)	92,996
Impairment charge on property, plant and equipment	13	15,230	-
Depreciation	13	45,360	50,168
Amortisation of prepaid operating lease rentals	15	10	9
Profit on disposal of property, plant and equipment		(3,723)	(26,063)
Profit on sale of investments		(10,774)	-
Interest expense	5	52,808	33,857
Dividend income		(801)	(782)
Interest income on originated loans		(27)	(18)
Other interest income		(75)	(27)
Loss/ (gain) arising from changes in fair value of biological assets less estimated point-of-sale costs	14	50,443	(93,114)
Decrease in fair value of biological assets due to sales	14	39,550	58,917
Post-employment benefit obligations		90	8,700
Exchange (gains)/ losses	5	(3,273)	5,552
		72,736	130,195
Changes in working capital: -			
Receivables and prepayments		(57,858)	1,194
Inventories		(1,700)	11,369
Payables and accrued expenses		22,544	(31,526)
Cash generated from operations		35,722	111,232

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. CASH AND CASH EQUIVALENTS – GROUP AND COMPANY

	2005 Shs'000	2004 Shs'000
Cash at bank and in hand	24,343	8,651

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash at bank and in hand, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities. The year-end cash and cash equivalents comprise the following: -

	Note	2005 Shs'000	2004 Shs'000
Cash at bank and in hand		24,343	8,651
Bank borrowings - short term	10	(368,189)	(210,141)
		(343,846)	(201,490)

23. JOINT VENTURE – PINEAPPLE

The company has a joint venture arrangement with Del Monte Kenya Limited for the growing of pineapples. At 31 December 2005, 850 hectares (2004 - 1,163 hectares) of company land remained developed under pineapple. The pineapples are processed and sold by Del Monte Kenya Limited who acts as the operator/manager of the joint venture.

The company's share of the revenue and expenses from the pineapple joint venture included in these financial statements are: -

	2005 Shs'000	2004 Shs'000
Revenue	338,507	459,139
Expenses	(266,479)	(386,933)
Net income	72,028	72,206

The company has received notice from Del Monte Kenya Limited in terms of the existing joint venture agreements and this arrangement will cease in May 2008.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23. JOINT VENTURE – PINEAPPLE (Continued)

The amounts due from and due to Del Monte Kenya Limited at the year-end in respect of transactions arising in the ordinary course of business, which are included in trade receivables (Note 19) and trade payables (Note 20) respectively are: -

	2005 Shs'000	2004 Shs'000
Due from Del Monte Kenya Limited	113,347	47,713
Due to Del Monte Kenya Limited	80,627	11,899

At 31 December 2005, the group had no capital commitments or contingent liabilities (2004 – Nil) in respect of the pineapple joint venture.

24. RELATED PARTY TRANSACTIONS – GROUP AND COMPANY

The ultimate parent of the group is Camellia Plc, incorporated in England. There are other companies that are related to Kakuzi Limited through common shareholdings or common directorships. Fellow subsidiaries within the Camellia Plc group act as brokers and managing agents for certain products of the company.

A related party for the purpose of these financial statements is any company in which directly or indirectly Camellia Plc incorporated in England has a director, key management or a shareholding. Linton Park Plc, a wholly owned subsidiary of Camellia Plc provides technical and advisory services.

(i) The following transactions were carried out with related parties: -

	2005 Shs'000	2004 Shs'000
(a) Purchase of goods and services: -		
Linton Park Plc	19,227	15,704
Robertson Bois Dickson Anderson Limited	14,430	15,007
Eastern Produce Kenya Limited	42,779	67,293
	76,436	98,004
(b) Sale of goods: -		
Eastern Produce Kenya Limited	26,063	33,344

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. RELATED PARTY TRANSACTIONS – GROUP AND COMPANY (Continued)

(ii) The amounts due from and due to related companies represent outstanding obligations in respect of transactions arising in the ordinary course of business are as follows: -

	2005		2004	
	Group	**Company**	**Group**	**Company**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Due from related companies: -				
Robertson Bois Dickson Anderson Limited	575	575	10,903	10,903
Due to related companies: -				
Eastern Produce Kenya Limited	12,278	12,278	16,522	16,522
Estates Services Limited	-	2,570	-	2,570
Siret Tea Company Limited	-	8,000	-	8,000
Kaguru (EPZ) Limited	-	5,813	-	5,813
Linton Park Plc	2,615	2,615	15,704	15,704
	14,893	31,276	32,226	48,609

(iii) Loans to directors and key management of the company

	Directors	**Key management**	**Total**
	Shs'000	**Shs'000**	**Shs'000**
Year ended 31 December 2004			
At start of year	206	-	206
Loans advanced during the year	-	2,013	2,013
Loan repayments received	(206)	(284)	(490)
At end of year	-	1,729	1,729
Year ended 31 December 2005			
At start of year	-	1,729	1,729
Transferred on appointment	609	(609)	-
Loans advanced during the year	-	1,200	1,200
Loan repayments received	(204)	(1,290)	(1,494)
At end of year	405	1,030	1,435

The loans to directors and key management were given on terms and conditions similar to those of the vehicle loan scheme for other management employees.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. RELATED PARTY TRANSACTIONS – GROUP AND COMPANY (Continued)

(iv) Key management compensation benefits

	2005 Shs'000	2004 Shs'000
Salaries and other short-term employment benefits	36,172	43,476
Post-employment benefits	210	183
	36,382	43,659

(v) Directors' remuneration

	2005 Shs'000	2004 Shs'000
Fees	500	300
Other emoluments (included in key management compensation above)	19,939	26,271
Payment to past directors	-	20
	20,439	26,591

25. CAPITAL COMMITMENTS – GROUP AND COMPANY

Capital expenditure contracted for by the group at the balance sheet date but not recognised in the financial statements is as follows: -

	2005 Shs'000	2004 Shs'000
Property, plant and equipment	50,929	1,579
Biological assets	7,516	6,496
	58,445	8,075

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. OPERATING LEASE COMMITMENTS – GROUP AND COMPANY

The future minimum lease rentals under non-cancellable operating leases are as follows: -

	2005 Shs'000	2004 Shs'000
Not later than 1 year	9	9
Later than 1 year and not later than 5 years	36	36
Later than 5 years	8,110	8,120
Total	8,155	8,165

27. CONTINGENT LIABILITIES – GROUP AND COMPANY

The group is a defendant in various legal proceedings filed against it by third parties. In addition, there are some pending tax matters with the Kenya Revenue Authority. In the opinion of the directors, the outcome of these matters will not have a material effect on the financial position or profits of the group.

****

KAKUZI LIMITED

FIVE YEAR RECORD

	2005	2004 Restated	2003 Restated	2002 Restated	2001
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Turnover	1,110,348	1,424,503	1,435,388	1,082,190	1,250,943
(Loss)/ profit before income tax and impairment	(96,852)	92,996	36,389	(10,934)	(95,934)
Impairment charge on property, plant and equipment	(15,230)	-	(56,059)	-	-
(Loss)/ profit before income tax	(112,082)	92,996	(19,670)	(10,934)	(95,934)
Income tax credit/ (expense)	38,315	(9,263)	7,875	3,334	41,767
(Loss)/ profit after income tax	(73,767)	83,733	(11,795)	(7,600)	(54,167)
Minority interests	-	-	-	(490)	8,944
(Loss)/ profit attributable to the members of Kakuzi Limited	(73,767)	83,733	(11,795)	(8,090)	(45,223)
Dividends: -					
Interim dividend - paid in the year	-	-	-	-	-
Proposed final dividend - for the year	-	19,600	-	-	-
	-	19,600	-	-	-
Capital and reserves: -					
Called up share capital	98,000	98,000	98,000	98,000	98,000
Reserves	812,218	912,712	909,295	933,553	1,691,366
	910,218	1,010,712	1,007,295	1,031,553	1,789,366
Basic (loss)/ earnings per stock unit (Shs)	(3.76)	4.27	(0.60)	(0.41)	(2.31)
Dividend per stock unit (Shs)	-	1.00	-	-	-
Dividend cover	-	4.27	-	-	-
Net asset value per stock unit (Shs)	46.44	51.57	51.40	52.63	91.29

All amounts are stated in Kenya shillings thousands (Shs'000) except where otherwise indicated.

MAJOR STOCKHOLDERS AND DISTRIBUTION SCHEDULE

MAJOR STOCKHOLDERS

The 10 major stockholders and their holdings as at 31 December 2005 were: -

	Stockholder name	Number of stock units	%
1.	Bordure Limited	5,107,920	26.06
2.	Lintak Investments Limited	4,828,714	24.64
3.	Karim Jamal	653,028	3.33
4.	Barclays (Kenya) Nominees Limited	627,912	3.20
5.	John Kibunga Kimani	392,188	2.00
6.	G.H. Kluge & Sons Limited	239,118	1.22
7.	Bawan Limited	238,441	1.22
8.	Insurance Company of East Africa Limited	215,092	1.10
9.	Joseph Barrage Wanjui	214,334	1.09
10.	Henry Richard Moszkowicz	205,912	1.05

Camellia Plc incorporated in England, by virtue of its interests in Bordure Limited incorporated in England and Lintak Investments Limited incorporated in Kenya, is deemed to be interested in these stock units.

DISTRIBUTION SCHEDULE

Stock units range	Number of stockholders	Number of stock units	%
Less than 500	459	117,417	0.60
501 to 5,000	641	1,220,610	6.23
5,001 to 10,000	79	605,221	3.09
10,001 to 100,000	109	2,817,239	14.37
100,001 to 1,000,000	23	4,902,878	25.01
over 1,000,000	2	9,936,634	50.70
	1,313	19,599,999	100.00